FDIC State Profile

Spring 2006

North Carolina

North Carolina's modest economic recovery continues.

- North Carolina's steady economic performance continued through the end of 2005 with job growth slightly above the national average (see Chart 1). However, manufacturing has remained a constant drag on the state's economy, experiencing a net loss of over 10,000 jobs over the past year alone.
- Several industries   most commonly textiles, apparel, and furniture manufacturers   saw a steady stream of layoffs in 2005, primarily because of offshore relocation or strong import competition. In contrast to the beleaguered manufacturing sector, many service-related industries, particularly healthcare, saw solid gains over the past year.

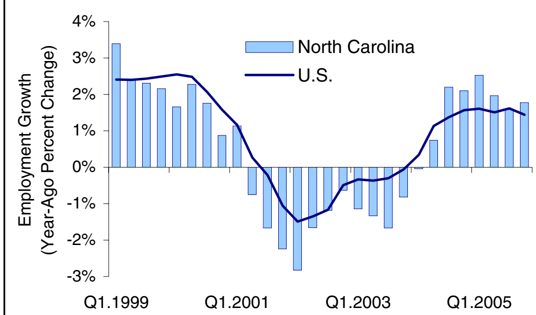
Home price appreciation accelerated in 2005.

- According to the Office of Federal Housing Enterprise Oversight, the house price index for the state rose 8.1 percent in 2005. Median home prices rose by nearly $10,400 last year, which was a record increase and well above the $4,339 average over the last 25 years (see Chart 2). Home prices in the **Wilmington** metropolitan area appreciated most rapidly with an increase of almost $19,000.
- Although home price appreciation accelerated in 2005, housing remains comparatively affordable. According to the National Association of Homebuilders-Wells Fargo Housing opportunity index, just 41 percent of homes nationwide are considered affordable for all U.S. households, well over 60 percent of homes sold in the state's largest metropolitan areas (**Charlotte**, **Greensboro**, and **Raleigh**) would be considered affordable for a families living in these markets.

The pace of home sales is decelerating in the State's hottest market.

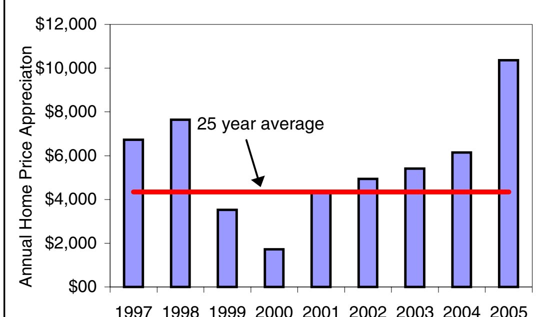
- Home sales remain strong statewide. However, in Wilmington, North Carolina's fastest appreciating market in 2005, the pace of home sales has weakened considerably, even as the inventory of unsold homes has increased (see Chart 3). In January 2006 there was a 1.5 month supply of newly listed homes. This was relatively

Chart 1: North Carolina Employment Growth Paces the Nation



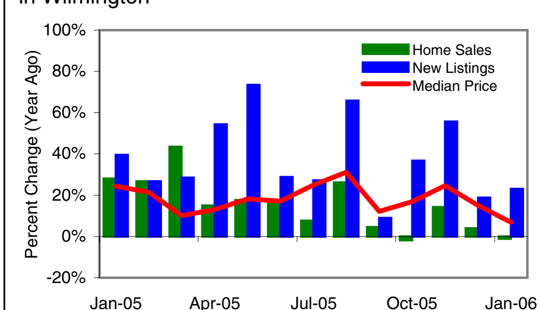
Source: Bureau of Labor Statistics

Chart 2: Annual Home Price Appreciation in North Carolina Was at a Record Level in 2005



Source: Moody's Economy.com (Median existing home price)

Chart 3: Existing Home Sales and Price Gains Slow in Wilmington



Source: Wilmington Regional Association of Realtors unchanged from the prior year, even though the unsold inventory of newly listed homes increased 23 percent. The slowing pace of home sales and growing inventory levels from a year ago suggest that marketing times may lengthen, potentially leading to slower price gains in 2006.

Bank profitability expands due to strong loan growth.

- Profitability at North Carolina community banks improved during 2005.[1] Return on assets gained nearly 9 basis points to 1.02 percent during the 12-month period (see Chart 4). Higher net interest income was primarily due to strong loan growth. Overall, loans increased more than 16 percent led by double-digit growth in construction and development (C&D), multifamily, and residential real estate loans. Lower loan loss provisioning also contributed to the profitability improvement.

The changing yield curve shape has affected net interest margins (NIMs).

- Community bank NIMs have shown clear reactions to changes in the level and shape of the yield curve (see Chart 5). During 2001 and 2002, NIMs initially expanded as rate cuts led to lower funding costs, but margins then fell as high volumes of residential mortgages and other loans were refinanced. By mid-year 2004, margins stabilized and then started trending upward. While funding costs have been slower to rise because of repricing lags, they have recently begun to accelerate, suggesting that NIM pressures may emerge in 2006.

Commercial real estate (CRE) lending concentrations are at unprecedented levels.

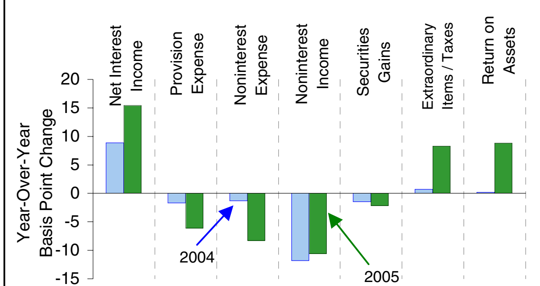
- CRE lending has been an important performance driver during the past ten years. Outstanding CRE loans have grown from $2.5 billion, or 47.5 percent of assets, in 1996 to $11.5 billion, or 60.5 percent of assets, in 2005.

- Within the CRE loan portfolio, C&D loans have has been the fastest growing segment. C&D loans grew 51 percent during 2005, which was the eleventh consecutive year that double-digit growth has occurred. The majority of C&D lending is for residential housing, and continued strong absorption of new housing units will be crucial.

- Concentrations of C&D loans have increased significantly and are well above the past cyclical high reached in the late 1980s (see Chart 6). Specifically, 31 community banks (63 percent) in North Carolina had an exposure of C&D loans of 100 percent or more of capital. In sharp contrast, only 7 community banks (14 percent) had a C&D loan to equity ratio of 100 percent or higher in 1989 at the past cyclical high.

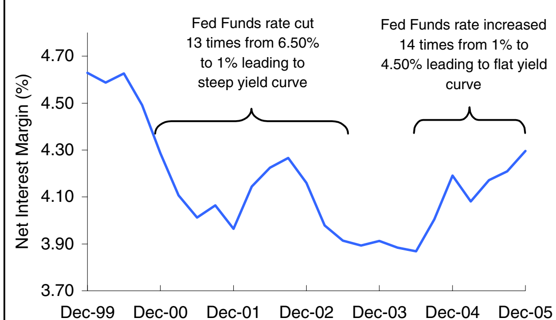
- In response to growing concentration levels among some FDIC-insured institutions nationwide, Federal banking regulatory agencies recently proposed supervisory guidance for CRE loan portfolios. The proposed guidance addresses a number of issues including the need for banks with high CRE concentrations or growth in CRE lending to have strong risk management practices, sound underwriting standards, and capital levels commensurate with risk. The comment period for the proposed guidance has been extended to April 13, 2006.

Chart 4: Profitability Gains Remain Strong at North Carolina Community Banks



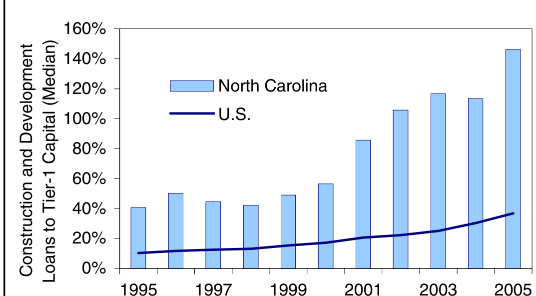
Source: FDIC, year-end data. Community banks have assets of $1 billion or less.

Chart 5: The Dynamic Interest Rate Environment Is Reflected in North Carolina Community Bank Margins



Source: FDIC, quarterly data. Community banks have assets less than $1 billion.

Chart 6: Construction and Development Loans Continue to Grow at North Carolina Community Banks



Source: FDIC (Community banks have assets less than $1 billion).

[1]Community banks have assets of $1 billion or less.

North Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	1.6%	2.1%	1.3%	-1.2%
Manufacturing (14%)	-1.9%	-2.4%	-0.9%	-3.7%	-6.9%
Other (non-manufacturing) Goods-Producing (6%)	4.7%	5.2%	4.5%	2.9%	-3.5%
Private Service-Producing (62%)	2.3%	2.4%	2.8%	2.3%	0.2%
Government (17%)	1.9%	1.0%	1.5%	1.6%	0.0%
Unemployment Rate (% of labor force)	5.2	5.4	5.3	5.5	6.4

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	5.8%	7.8%	6.7%	2.6%
Single-Family Home Permits	13.4%	16.3%	6.2%	14.5%	-0.8%
Multifamily Building Permits	-7.1%	-33.0%	-1.9%	32.5%	-22.1%
Existing Home Sales	13.4%	11.7%	20.5%	23.2%	10.0%
Home Price Index	8.1%	7.4%	5.4%	4.3%	3.3%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.44	5.27	4.10	4.25	4.60

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	108	108	108	108	104
Total Assets (in millions)	1,707,833	1,685,442	1,302,253	1,302,253	1,101,834
New Institutions (# < 3 years)	12	11	10	10	7
Subchapter S Institutions	2	1	2	2	2

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.26	1.10	1.23	1.23	1.58
ALLL/Total Loans (median %)	1.25	1.26	1.27	1.27	1.28
ALLL/Noncurrent Loans (median multiple)	2.04	2.39	2.11	2.11	1.92
Net Loan Losses / Total Loans (median %)	0.06	0.05	0.06	0.11	0.10

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.54	9.70	10.27	10.27	9.46
Return on Assets (median %)	0.93	0.90	0.78	0.71	0.76
Pretax Return on Assets (median %)	1.28	1.35	1.08	1.05	1.10
Net Interest Margin (median %)	4.02	3.90	3.82	3.67	3.65
Yield on Earning Assets (median %)	6.76	6.43	5.66	5.41	5.66
Cost of Funding Earning Assets (median %)	2.61	2.42	1.82	1.72	1.96
Provisions to Avg. Assets (median %)	0.20	0.19	0.20	0.19	0.20
Noninterest Income to Avg. Assets (median %)	0.63	0.71	0.68	0.69	0.88
Overhead to Avg. Assets (median %)	2.90	2.84	2.81	2.84	2.96

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	75.2	75.3	75.9	75.9	73.0
Noncore Funding to Assets (median %)	27.6	28.3	26.1	26.1	24.0
Long-term Assets to Assets (median %, call filers)	13.6	13.7	14.4	14.4	15.5
Brokered Deposits (number of institutions)	63	58	52	52	39
Brokered Deposits to Assets (median % for those above)	4.8	6.1	5.6	5.6	3.9

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	87.1	90.9	84.7	84.7	97.8
Commercial Real Estate	348.1	325.3	315.5	315.5	304.4
Construction & Development	111.2	107.0	97.5	97.5	79.1
Multifamily Residential Real Estate	9.6	8.9	10.1	10.1	10.3
Nonresidential Real Estate	176.4	177.1	152.8	152.8	167.2
Residential Real Estate	245.7	244.7	256.6	256.6	273.0
Consumer	18.9	19.9	21.6	21.6	32.4
Agriculture	1.9	2.0	2.2	2.2	3.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Charlotte-Gastonia-Concord, NC-SC	43	90,216	< $250 million	58 (53.7%)
Virginia Beach-Norfolk-Newport News, VA-NC	31	16,042	$250 million to $1 billion	37 (34.3%)
Winston-Salem, NC	19	14,002	$1 billion to $10 billion	8 (7.4%)
Raleigh-Cary, NC	24	13,216	> $10 billion	5 (4.6%)
Greensboro-High Point, NC	29	9,397		